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No. 03-965

IN THE

# Supreme Court of the United States

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LOS ANGELES NEWS SERVICE,
*Petitioner*,

v.

REUTERS TELEVISION INTERNATIONAL, LIMITED, ET AL.,
*Respondents.*

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**On Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit**

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## BRIEF OF RESPONDENTS IN OPPOSITION

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## Rule 29.6 Corporate Disclosure Statement

Reuters Television International, Limited, Visnews International (USA), Limited, Reuters America Holdings Inc., and Reuters America LLC are subsidiaries of Reuters Group PLC, a publicly held company that owns 10% or more of their stock.

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Petitioner rests its case for review almost exclusively on an asserted conflict between the decision below and that of the Second Circuit in *Update Art, Inc. v. Modiin Publishing Ltd.*, 843 F.2d 67 (2d Cir. 1988). There is no such conflict. *Update Art* does not even address the issue raised by petitioner, and in no way conflicts with the decision below. In fact, the opinion below is in full accord with the only Second Circuit decision actually on point, and expressly adopts the reasoning and holding of Judge Learned Hand's opinion in *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45 (2d Cir. 1939).

Furthermore, in the sixty-five years since *Sheldon* was decided, the unusual factual circumstances to which its rule is relevant have rarely recurred. The issue in this case arises infrequently and, when it does, generates no conflict among the courts of appeals. Certiorari should be denied.

## STATEMENT OF THE CASE

### A. Statutory Background.

1. The Copyright Act of 1976 ("Copyright Act" or the "Act"), 17 U.S.C. § 101 *et seq.*, protects creators against the unauthorized copying of their works for a set term, after which the works become a part of the public domain and may be freely copied. Like its predecessors, the Act provides legal protection only within the borders of the United States; it has no extraterritorial application. 4 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 17.02, at 17-19 (explaining territorial limitations of the Copyright Act and citing cases). That long-settled principle is not contested in this case.

2. The Act provides for monetary remedies in the event of infringement. Though all or some of those remedies are sometimes referred to loosely as "damages," they actually comprise three distinct forms of relief. First, § 504(b) of the Act permits a prevailing party to recover "actual damages" suffered as a result of an infringement – for example, the value of sales that were lost when a potential buyer purchased an infringing copy instead of the original work. 17 U.S.C. § 504(b) (reproduced at Pet. App. 101). Section 504(b) also allows for recovery of any of the infringer's profits attributable to the infringement. *Id.* Finally, a copyright owner may elect to forgo actual damages and profits and instead recover statutory damages. *Id.* § 504(c)(1) (reproduced at Pet. App. 101-02). Statutory damages are assessed in such amount "as the court considers just" within minimum and maximum limits set by the statute. *Id.*

3. The question of remedies does not even arise in cases in which a copyrighted work is infringed and the infringing copy exploited solely outside the borders of the United States. Because copyright law has no extraterritorial application, such cases are not actionable under the Copyright Act. 4 *Nimmer on Copyright* § 14.05, at 14-96. A different question is raised in the rare case in which an *infringement* occurs entirely within the United States and is then *exploited* for profit overseas. In the seminal case addressing this remedial problem, *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45, 52 (2d Cir. 1939), the Second Circuit held that a prevailing party could recover the infringer's profits under those circumstances, under a constructive trust theory. "[T]he copyright owner acquires an equitable interest [in the infringing work] as soon as it comes into being, and [] the work is thereafter impressed with a constructive trust so that the plaintiff is entitled to profits accruing from the exploitation of the work anywhere in the world." 4 *Nimmer on Copyright* § 14.05, at 14-96 (describing *Sheldon*).

**B. Factual Background and Proceedings Below.**

1. The video recordings ("the works") at the center of this copyright dispute are the property of the petitioner, Los Angeles News Service ("LANS"). LANS is an independent news organization that, for profit, produces and licenses audio and video tape recordings of newsworthy events. Petitioner copyrighted the works and sold a license to rebroadcast them to, *inter alia*, NBC, which used them as part of its *Today Show*. Pet. App. 3.

Pursuant to a news-supply agreement, NBC transmitted its broadcast of the *Today Show* to respondent Visnews International (USA), Ltd. ("Visnews"), in New York City. There, Visnews made a videotape copy of the works. Visnews then transmitted the works via satellite to its subscrib-

ers in Europe and Africa, and via fiber link to the New York office of the European Broadcast Union ("EBU"). *Id.*

The EBU then transmitted the works to Reuters Television International, Ltd. ("Reuters") in London. In London, Reuters made copies of the EBU transmission of the works. Reuters then transmitted the works to its European subscribers, who pay an annual fee to receive audiovisual and other news materials from Reuters. *Id.* at 3-4, 37.

2. Following Reuters' transmissions of the works in Europe, petitioner brought this action against respondents alleging, *inter alia*, violations of the Copyright Act. *Id.* at 4, 37. Respondents moved for, and were granted, partial summary judgment on grounds related to the extraterritorial application of the Copyright Act.

The district court ruled, first, that "no liability could arise under the Copyright Act for acts of infringement that occurred outside the United States." *Id.* at 4; *see id.* at 77. That holding excluded Reuters' conduct in making copies of the works in London and transmitting the works to European subscribers from liability under the Act. By contrast, Visnews' copying of the works in New York, *id.* at 3, as well as the EBU's subsequent copying in New York, *id.* at 38, 69, 70, 85, constituted domestic acts of infringement cognizable under the Act. But because petitioner could not show that any damages arose from that domestic infringement, rather than from extraterritorial exploitation of the infringement, it was limited to recovery of statutory damages. *Id.* at 4.

On appeal, the court below reversed the district court's broad extraterritoriality ruling. The court of appeals agreed that the Copyright Act does not apply extraterritorially. But it held that when an initial act of infringement is completed entirely within the United States – like Visnews' and the EBU's New York copying of the works – *profits* realized through overseas exploitation of that infringement may be

recovered. *Id.* at 5; *see id.* at 40-43. In support of its holding, the court relied expressly on Judge Learned Hand's opinion in *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45 (2d Cir. 1939), reasoning that a constructive trust is created when the infringement is complete, so that profits derived from the infringing copy actually belong to the domestic copyright owner. Pet. App. 40.

After this Court denied certiorari, 525 U.S. 1141 (1999), the case returned to the district court, where respondents moved for summary adjudication of petitioner's damages claim. Petitioner sought to recover both profits realized and actual damages incurred overseas as a result of the initial domestic infringement. *Id.* at 5-6. The district court agreed with respondents that petitioner was entitled only to profits, and not also to overseas damages flowing from the domestic infringement. "To permit [LANS] to recover damages other than [respondents'] profits or unjust enrichment would . . . effectively permit [LANS] to recover damages for extraterritorial acts of infringement." *Id.* at 30; *see also id.* at 6. The district court concluded that respondents had not, in fact, reaped any overseas profits from their domestic infringement and instructed that petitioner could elect to take $60,000 in statutory damages in lieu of profits. *Id.* at 6, 34.

Petitioner appealed without making the required election between statutory damages and profits. Consequently, the court of appeals dismissed the appeal for lack of jurisdiction. *Id.* at 6. After curing the defect by making the required election, petitioner re-filed its appeal with the Ninth Circuit. *Id.*

3. Unanimously finding that it did not need to hear oral argument, the court below issued its opinion on the briefs. *Id.* at 1. Writing for the majority, Judge O'Scannlain affirmed the district court, agreeing with its holding that petitioner was entitled only to profits generated by exploitation

of the domestic infringement, and not to all overseas damages that could be linked back to that infringement. *Id.* at 13.

The court began by rejecting petitioner's argument that the prior court of appeals decision had authorized overseas damages awards beyond profits. Rather, Judge O'Scannlain concluded, the earlier panel had "relied on Judge Learned Hand's opinion in *Sheldon* and discussed damages entirely in the context of that case, which dealt exclusively with the recovery of the defendants' profits." *Id.* at 7.

The court below went on to confirm that the *Sheldon* rule – allowing recovery of profits derived from overseas exploitation of domestic infringement, and only of such profits – is the appropriate one. That rule, the court concluded, is consistent with the principles laid down by the Ninth Circuit's *en banc* decision in *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088 (9th Cir. 1994), which "reaffirmed that the copyright laws have no application beyond the U.S. border." *Id.* at 11. "In particular, the *Sheldon* constructive trust rationale includes a territorial connection that preserves consistency with Congress's decision to keep the copyright laws – presumably including § 504, which prescribes remedies – territorially confined." *Id.* at 12 (citation omitted). The court of appeals rejected petitioner's reliance on *Update Art*, noting that the Second Circuit opinion "did not even discuss the distinction between damages and profits, much less cite *Sheldon*." *Id.* at 10.

Judge Silverman dissented on the ground that the majority had misconstrued the prior panel's opinion in this case. *Id.* at 14. On his reading, that panel's use of the term "actual damages" had decided the question and allowed recovery of actual damages as well as profits. *Id.* at 14. Accordingly, Judge Silverman would have remanded for a trial on actual damages. *Id.* at 15-16.

## REASONS FOR DENYING THE WRIT

### I. THERE IS NO CONFLICT BETWEEN THE DECISION BELOW AND ANY DECISION BY ANY OTHER COURT OF APPEALS.

#### A. The Decision Below Does Not Conflict With *Update Art.*

All of petitioner's arguments for certiorari rest on one central premise: that the decision below conflicts with the Second Circuit's decision in *Update Art v. Modiin Publishing, Ltd.*, 843 F.2d 67 (1988). That contention is incorrect. And once the purported conflict is removed from the equation, there is nothing left to support petitioner's argument for review.

1. The issue raised and decided below, and now before this Court, is whether the general prohibition on extraterritorial application of the Copyright Act necessarily limits remedies for domestic infringement to profits, as opposed to actual damages, incurred overseas. The *Update Art* court did not purport to, nor did it actually, decide that issue.

The central issue before the court in *Update Art* – and the only issue involving extraterritorial application of the Act – was whether the copyright claims brought in that case were cognizable as a *jurisdictional* matter. *Update Art*, 843 F.2d at 68, 72. The court held that there was jurisdiction: even infringing copies distributed abroad could be the predicate for jurisdiction when they were originally copied within the United States. *Id.* at 73. The court did not go beyond the jurisdictional question raised in the appeal to consider *sua sponte* the effect of the territoriality principle on available remedies.

The *Update Art* court did address damages, but only in the context of a long-running discovery dispute over the defendants' refusal to proffer evidence on the amount of profits

earned from its infringement. *Id.* at 70. The magistrate judge ultimately sanctioned the defendants for their bad-faith conduct and, because "neither [defendants'] precise profits nor their alleged deductible expenses could be determined from their limited production," accepted the plaintiff's calculation of damages. *Id.* On review, the Second Circuit sustained those sanctions and rejected the defendants' "belated" effort to introduce new evidence on the amount of damages. *Id.* at 72. In short, the damages award in *Update Art* was a result of sanctions imposed for discovery abuses, and appellate review of the award was limited to the legitimacy of those sanctions.[1]

The decision below is not in conflict with *Update Art*. Rather, the cases are fully compatible, agreeing on the answer to the only question they have in common – whether there is jurisdiction over claims where overseas damages, including profits, result from an initial infringing act that occurs within the United States. *See Update Art*, 843 F.2d at 73; Pet. App. at 5.

2. The *Update Art* decision can and must be interpreted in accord with the Second Circuit's earlier decision in *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45 (2d Cir. 1939), which has never been overruled and therefore remains the law of the Second Circuit. Faced with the general rule that copyright laws do not apply to extraterritorial conduct,

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[1] In any event, it appears that the damages awarded did correspond to the profits earned from the infringement. *See Update Art*, 843 F.2d at 70 & n.3 (total award same as plaintiff's calculation of defendants' profits). The appellate court's reference to "damages *accruing from* the Israeli newspapers," *id.* at 73 (emphasis added), is to the same effect, suggesting that the remedy consisted of profits directly connected to the infringing copies circulated in Israeli newspapers. To the extent that the magistrate judge considered actual damages at all in the course of calculating total damages, it was because the defendants' recalcitrance had made it impossible to measure profits more precisely. *Id.* at 70.

*Sheldon* crafted a limited exception of sorts. In cases where a complete act of infringement – say, a copying of a videotape – occurs in the United States, Judge Hand explained, the copyright owner immediately becomes the beneficiary of a constructive trust on that work. Profits later earned from that infringing work – even if they are earned through overseas exploitation – thus belong to the copyright owner by virtue of a constructive trust *created within the United States* at the time of the infringement. *Sheldon*, 106 F.2d at 52. Thus, the *Sheldon* rationale attempts to forge a territorial link between the infringement and the remedy. *See* Pet. App. 12 (describing and adopting *Sheldon* rationale).

There is simply no indication, express or implied, that the *Update Art* court intended to or did disavow *Sheldon*. On the contrary, *Update Art* relies on the *Sheldon* "exception" in passing on the jurisdictional issues before it. 843 F.2d at 73 (noting exception to general rule that copyright laws do not have extraterritorial application when infringement completed within United States leads to exploitation abroad, and citing *Robert Stigwood Group Ltd. v. O'Reilly*, 530 F.2d 1096, 1100-01 (2d Cir. 1976), which in turn cites *Sheldon*). Nor would there be any justification for rejecting *Sheldon*'s limited rule, with its carefully crafted territorial link, in favor of petitioner's proposed rule, which would completely obliterate the principle that the Copyright Act has no extraterritorial reach. Certainly, no such justification was presented to or addressed by the Second Circuit in *Update Art*. Under those circumstances, there is no basis for reading into *Update Art* an implied rejection of settled circuit law.[2]

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[2] Petitioner also suggests that there is a conflict of some sort – though obviously not a conflict among courts of appeals, *cf.* Sup. Ct. R. 10(a) – between the decision below and *Famous Music Corp. v. Seeco Records*, 201 F. Supp. 560, a 1961 district court decision from the Southern District of New York. As the court below noted, the *Famous Music* decision only briefly mentions the extraterritoriality rule, and makes no reference

In short, the decision below creates no conflict with the Second Circuit. On the contrary, the court below deliberately and consciously assured consistency with the only other circuit that had previously decided the issue before it by expressly adopting both the holding and rationale of *Sheldon*. Pet. App. 12.

### B. The Decision Below Does Not Conflict With Any Other Court of Appeals' Decision.

Petitioner briefly asserts that the decision below "inexplicably prevents [petitioner] from even recovering a reasonable royalty for respondents' unauthorized use of its footage" and that this result conflicts with decisions by the Second and Seventh Circuits. Pet. 18. That assertion is incorrect.

First, the decision below does not "prevent[]" recovery of "a reasonable royalty" as such. Petitioner does not provide a citation to the part of the opinion it has in mind here. And the decision below never even mentions royalties, much less addresses whether petitioner is entitled to a "reasonable" royalty – for the simple reason that petitioner never raised that particular issue below.

The decision below does, of course, hold that damages for extraterritorial conduct are limited to profits generated from a constructive trust placed on an infringing work when the infringement was completed in the United States. That holding implicitly precludes recovery of royalties – just as it precludes recovery of *any* damages other than profits. But as discussed above, a rule restricting petitioner to profits and not to other damages (including royalties) brings the Ninth

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to *Sheldon* at all. Pet. App. 10-11. In any event, the Southern District is clearly bound by *Sheldon* as circuit precedent, and any tension between *Famous Music* and *Sheldon* is a strictly intra-circuit affair with which the Second Circuit is fully equipped to deal.

Circuit into full agreement with the one other circuit to have issued an opinion on the subject.

The decisions regarding royalties cited by petitioner are entirely inapposite. *Davis v. The Gap, Inc.*, 246 F.3d 152 (2d Cir. 2001), *Rogers v. Koons*, 960 F.2d 301, 313 (2d Cir. 1992), and *Deltak v. Advanced Systems, Inc.*, 767 F.2d 357, 360-61 (7th Cir. 1985), *see* Pet. 18-19, all involve copyright disputes of an entirely domestic character. Not one involves conduct – infringing or otherwise – that occurred beyond the borders of the United States. By definition, there can be no conflict between cases involving the award of royalties as damages for *domestic* copyright infringement and the decision below, addressing the circumstances under which damages incurred *overseas* may be awarded under the Copyright Act.

## II. NOTHING ABOUT THIS CASE WARRANTS CERTIORARI REVIEW.

Petitioner has advanced no valid reason for the Court to grant review in this case. The petition rests virtually exclusively on a fictitious conflict between the decision below and *Update Art*. Even petitioner's fall-back argument – that the case involves "an issue of extraordinary importance," Pet. 19 – is premised on the same supposed conflict. *See id.* (certiorari should be granted because of "*the conflict* regarding the availability of extraterritorial damages") (emphasis added).

Nor should this Court be swayed by the alarmist claims catalogued at the end of the petition. The *Sheldon* rule adopted by the court below has peacefully existed for sixty-five years in one of the two "copyright circuit[s]." Pet. 19. In all that time, it has caused little excitement – perhaps because it has been so rarely invoked. The issue has arisen – even tangentially – a mere handful of times in the Second Circuit, *see, e.g.*, *Robert Stigwood Group*, 530 F.2d at 1100-

01, and not once in any other circuit before this case recently arose in the Ninth.

Presumably, that is because the factual circumstances that give rise to the issue at hand so rarely occur. In order for the long-standing "profits only" rule to be implicated, there must be *both* an act of infringement that is completed within the United States, *and* an overseas exploitation of that infringement that generates actual damages abroad. If, for instance, Visnews or the EBU had privately transmitted the works to an affiliate in London who had made a video copy there instead of in New York, there would have been no act of infringement completed entirely in the United States, and hence no liability under the Copyright Act at all. *See* Pet. App. 4. And if, of course, Visnews and the EBU had transmitted the works only domestically, then there would be no extraterritoriality issue at all. It should not be surprising that occasions for application of the *Sheldon* rule have been few and far between.

Petitioner's broad charges and complaints stem not from the rarely invoked *Sheldon* rule – a pro-recovery exception to the general bar on awards of *any* damages incurred abroad in most cases of extraterritorial infringement – but from the territoriality requirement itself. And those complaints, of course, are properly addressed to Congress, not to this Court. As the Ninth Circuit noted in addressing a similar "parade of horribles" argument, it is "the United States Congress, in acceding to the Berne Convention, [that] has expressed the view that it is through increasing the protection afforded by *foreign* copyright laws that domestic industries that depend on copyright can best secure adequate protection." *Subafilms Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1095 n.10 (9th Cir. 1994) (en banc).

This case involves a very specific question in the narrow subset of copyright law related to damages. The issue arises

only in the context of a highly unusual factual situation. And in the few instances in which it has arisen, the issue has proved entirely unexceptional, generating no controversy or conflict among the courts of appeals. There is no reason for this Court to review a narrow issue on which the circuit courts are in agreement.

## CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted,

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